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RUEKJCS/JOINT STAFF WASHDC  
RUEHGV/USMISSION GENEVA 0909  
RUEHVEN/USMISSION USOSCE 2917  
RUCNDT/USMISSION USUN NEW YORK 2302  
RUEHNO/USMISSION USNATO BRUSSELS BE  
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C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 000501

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TAGS: [ENRG](#) [ECON](#) [PREL](#) [SOCI](#) [KG](#)

SUBJECT: WATER AND ELECTRICITY WOES SHOCK KYRGYZ INTO ACTION

REF: A. BISHKEK 195

[1](#)B. BISHKEK 478

[1](#)C. BISHKEK 444

[1](#)D. 07 BISHKEK 1395

[1](#)E. 07 BISHKEK 966

[1](#)F. 06 BISHKEK 1792

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Classified By: Amb. Marie L. Yovanovitch, Reason 1.4 (b) and (d).

[1](#)1. (C) Summary: Water shortfalls in the Kyrgyz hydroelectric cascade have resulted in power blackouts throughout the country as well as irrigation shortages for downstream farmers. While Kyrgyz officials advocate multilateral solutions to regional water issues, President Bakiyev ventured to Tajikistan May 16 to develop common water and electricity policies with his Tajik counterpart. Domestic electricity tariff increases have finally been agreed while Kyrgyz officials focus on expanding power generating infrastructure. Meanwhile, PM Chudinov has approached U.S. firm AES to discuss AES managing three of the Kyrgyz Republic's four electricity distribution companies. However, the largest distribution company and the Bishkek thermal plant may have already been ceded to an outside operator in advance of the planned summer tender. Balancing water, natural gas and electricity ties with downstream Uzbekistan will prove tricky for Kyrgyz officials as domestic shortages limit options and hinder Kyrgyz engagement on the planned regional CASA electricity export project linking Central and South Asia. End summary.

Water Woes  
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[1](#)2. (C) Despite the generous snowfalls last winter, the main Toktogul hydroelectric reservoir is only filled to about 30% of capacity. (Note: The snows fell largely on mountain ranges that do not feed into the reservoirs. End note.) Contrary to the Minister of Energy's assurances in February (reftel A) about sufficient water being available for

generation needs this year, a prime ministerial advisor confirmed to Embassy May 16 that the reservoir is at its lowest level in 30 years. With fears of replicating Tajikistan's serious winter electricity shortfalls, Kyrgyz officials have instituted electricity rationing with lengthy blackouts (reftels B and C) in order to conserve water in the hydroelectric reservoirs.

13. (C) Conservation in the reservoirs has rankled downstream farmers, and local commentators are already encouraging Kyrgyz officials to be "tough" with Uzbekistan during anticipated talks over water releases to supply Uzbek agricultural fields. Chief presidential economic advisor Azamat Dikambayev told the Ambassador May 15 that the water situation in southern Kyrgyzstan "is worse than you realize," and cautioned that forecasts show lower precipitation than normal in the coming months.

14. (C) Kyrgyz MFA Department of International Economic Cooperation Chief Batyrkan Syrgabayev emphasized to Emboff May 15 the importance of a multilateral Central Asian water agreement, which, he reasoned, would be preferable to previous bilateral arrangements. (Note: The Kyrgyz-Uzbek agreement bundling water and electricity supplies for 2007, reftel F, has not apparently been repeated this year. End note.) Despite his emphasis on a multilateral agreement, Syrgabayev later noted that President Bakiyev's May 16 visit to northern Tajikistan for consultations with Tajik President Rahmon aimed to achieve bilateral consensus between Tajikistan and the Kyrgyz Republic on water and energy issues. As a signal of the growing importance of water issues, presidential advisor Dikambayev also told the Ambassador May 15 that the previously independent Kyrgyz

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water management agency may be resuscitated as a result of a potential government reorganization. A prime ministerial advisor confirmed to Embassy May 16 that the water management agency, which had been folded into the Ministry of Agriculture in 2005, would be established under the prime minister's office.

#### Raising Tariffs and Capacity Building

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15. (SBU) Having advocated tariff increases while serving as Minister of Energy, Prime Minister Chudinov finally pushed through domestic electricity tariff increases April 23. The tariff increases, scheduled to start June 1 and continue through 2012, envision a 13% increase for residential users (up to 2.6 U.S. cents per kilowatt hour) and higher rates for other consumers. However, due to persistent delays in obtaining approval and providing sufficient public notice, implementation of the new tariffs may be delayed until later in the summer.

16. (SBU) Amidst concerns over diminishing generation capacity, President Bakiyev on May 2 appointed former Prime Minister Felix Kulov head of a new, "self-sustainable" (likely meaning self-financing) Directorate for Small and Medium-Sized Energy Industry electricity generation programs. The appointment coincides with renewed donor interest in small hydroelectric facilities. Andreas Clausing, local representative of the German sustainable development organization GTZ, told Emboff May 15 that his organization would be assisting in small-scale hydroelectric feasibility studies.

17. (C) Renewed construction on the Soviet-era Kambarata 2 hydroelectric project is absorbing millions of dollars of Kyrgyz government funds, and is contributing significantly, in the view of the local IMF representative, to the likelihood of the central government running out of money later this year. PM Chudinov has previously told Embassy that Kambarata 2 can only operate for five years without the completion of the larger (and much more expensive) Kambarata

1 project. While GTZ's Clausen told Emboff that his organization would be providing vocational training to the welders needed for the Kambarata 2 project, Kyrgyz officials have been appealing to former workers, who have since emigrated to Russia and elsewhere, to return to work on the project.

#### Privatizing on Favorable Terms

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18. (C) Kulov's appointment to lead the new Small and Medium-Sized Energy Industry Directorate comes amidst new momentum to introduce private operators into the Kyrgyz power generation and electricity distribution networks. AES Kazakhstan Country Manager Michael Jonagan (Amcit, please protect) briefed Embassy May 14 about his meeting earlier in the day with PM Chudinov. Chudinov's office initiated the meeting, and Jonagan was asked if AES would consider managing the Osh, Jalalabad and Vostok (Eastern) electricity distribution companies. (Note: These three smaller distribution companies are currently less lucrative and have received less investment than the Sever (Northern) distribution company. End note.) AES, which had closed its local office a few months back due to limited business prospects, had originally been interested in the Bishkek thermal station and the Sever electricity distribution company. On the sidelines of the Chudinov meeting, a Kyrgyz White House official whispered to another AES representative "not to bother" participating in the planned summer tender for the Bishkek plant and Sever electricity distribution company.

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19. (C) Jonagan told Emboff he would discuss the idea of managing these three Kyrgyz electricity distribution companies with his senior management. He reasoned that AES had met similar challenging assignments in neighboring Kazakhstan, and that success with these companies would position AES well for future Kyrgyz projects. Jonagan believed that the summer tender would be nominally "transparent," but signaled his conclusion that the foreign partner for those facilities had already been selected. This AES report correlates with previous indications that any privatization or management contracts for the Bishkek station and Sever electricity distribution network would be fixed.

#### Foreign Entanglements

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110. (C) Given the contentious nature of water issues with neighboring Uzbekistan and concerns about the reliability of Uzbek natural gas supplies for the coming winter, Kyrgyz officials are doubly concerned about the external and domestic impacts of limited water supplies and poor power generation prospects. Earlier in the year, PM Chudinov had mentioned plans to sell electricity this summer to neighboring Kazakhstan at the rate of 3.5 cents per kilowatt hour. With the current shortages, however, these plans may now be on hold.

111. (C) These problems also impact the Kyrgyz Republic's role in the CASA-1000 project for future export of electricity to South Asia. Although the Kyrgyz finally provided the technical data required to plan for the CASA 1000 project, the data have not yet been analyzed and the Kyrgyz Republic is now behind the other three countries in the venture. The lead Kyrgyz delegate at the last CASA gathering in Kabul apparently did not have the authority to sign the memorandum of understanding agreed there. While the Kyrgyz are still committed to the CASA-1000 project, electricity problems at home may limit Kyrgyz flexibility.

#### Comment

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¶12. (C) The Kyrgyz face difficult times ahead on the electricity front. As the existing electricity generation and distribution system is plagued with "technical losses" officially reaching 40%, a push to offload inefficient distribution companies in order to streamline electricity supplies is a gamble. The gamble, however, is likely mixed with nontransparent deal-making for the Bishkek thermal plant (and the Sever electricity distribution company). Earlier this month, presidential advisor Valentin Bogatyrev told the Ambassador that Israeli-Kazakh (and former Kyrgyz) businessman Alexander Mashkevich had the inside advantage for these assets. Due to long-delayed maintenance work, the Bishkek thermal plant is barely operating at half capacity. We understand that one scenario for the Bishkek thermal plant involves generating electricity for export to Kazakhstan. Embassy will continue to monitor developments.  
LITZENBERGER